



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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STATE SECURITIES REGULATORS CRACK DOWN ON INVESTMENT PLOY Early Estimates Show Investors Have Lost \$76 Million in ATM and Payphone Scams

PHOENIX – The Arizona Corporation Commission’s Securities Division joins securities regulators from 25 other states in announcing actions against individuals and companies that promised high returns from risky or fraudulent investments in pay telephones and automated teller machines (ATMs).

Securities regulators in 26 states¹ participated in the crackdown, identifying nearly 4,500 people, most of them elderly, who lost an estimated \$76 million investing in so-called coin-operated customer-owned telephones. Large losses are also estimated in the sale of investments in ATMs. As investigations continue, regulators expect losses to rise dramatically.

“What we’re seeing is the tip of what’s likely to be a very large iceberg,” said Mark Sendrow, director of the Commission’s Securities Division. “Unfortunately, we expect to see national losses totaling hundreds of millions of dollars.”

In a typical pay telephone or ATM scheme, a company, through a middleman, sells payphones or ATMs to investors for between \$3,500 and \$10,000. As part of the sale, the company agrees to lease back and service the phones or ATMs for a fee. Investors are promised annual returns of up to 15 percent. But state regulators say interest payments, if they are made at all, are often just enough to keep previous investors on board.

The middlemen selling the payphones or ATMs are often independent insurance agents. In one recent

¹ Alabama, Arizona, California, Colorado, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Mississippi, Missouri, Montana, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, Virginia, Washington and Wisconsin.

case, the Commission found that Jerome Zanowski, a Sun City-based insurance agent, had violated the Arizona Securities Act and ordered him to cease and desist. Zanowski was selling pay telephone contracts and other questionable investments to Arizona residents who lost over \$110,000. Zanowski did not inform his clients that he earned large commissions of up to 14 percent. Zanowski also failed to disclose that the investments were in companies that regulators in other states had taken action against. He even offered investments in a company that authorities in Florida had indicted for fraud.

Commission Chairman William A. Mundell said, “Customer-owned, coin-operated payphones or customer-owned ATMs are just two of a number of questionable or fraudulent investments being marketed through sometimes unwary independent insurance agents. Investors should steer clear of these types of investments. The commissions for the sales representative can be very high. Arizona investors should consider the motives of an insurance agent who solicits them to invest in non-insurance products.”

Commissioner Jim Irvin notes, “During my tenure here, we have been very proactive in taking actions against companies and insurance agents selling bogus payphone, ATM and promissory note investments. I am pleased to cooperate with other states in a nationwide crackdown to draw attention to these exotic and risky investments.”

“These investments are often marketed through newspaper and radio ads or seminars,” Commissioner Marc Spitzer added. “I urge anyone contemplating an investment promoted in advertisements or seminars to do research, research and more research. In the kinds of cases we’re seeing, a little research before investing might have saved a lot of heartache later.”

The Commission’s Securities Division has filed several actions against insurance agents and others who have sold pay telephone or ATM investments to Arizona residents. Counting pending actions, the Commission estimates that more than \$10 million has been raised in Arizona.

Arizona’s experience with these investments is not unique. For example, Georgia-based ETS Payphones, Inc. sold nearly 50,000 payphones nationwide, including several in Arizona. According to a federal district court opinion, ETS was continually seeking new investors because “revenue from payphone operations never covered

operating expenses.” During the first six months of 2000, ETS’ losses exceeded \$33 million.

ETS’ founder, Charles Edwards, who contends that he defrauded no one, has been replaced and the company is now under bankruptcy reorganization in Delaware. Even as losses piled up, federal court records show that Edwards:

- Sponsored a NASCAR racing team;
- Purchased a luxury home in Georgia’s exclusive Sea Island community;
- Paid himself \$2.24 million in salary between 1998 and 2000;
- Received \$700,000 in consultant fees from another payphone enterprise;
- Paid \$3 million in management fees to an affiliated company which he also owned; and
- Lent over \$11.6 million, interest free, to various companies he controlled.

Arizona’s securities regulators hope that by calling attention to these excesses, which were likely funded by investor dollars, they can spare others a lot of financial and emotional distress. Anyone with questions or complaints about payphone or ATM investments can call the Arizona Corporation Commission’s Securities Division at 602-542-4242 or toll free at 1-877-811-3878.

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WHAT IS THE BEST PROTECTION AGAINST SCAMS AND FRAUDS?

An educated investor is the best protection against securities fraud. Scam artists prey on people who are very trusting, those who don't ask a lot of questions or people who don't understand the "mechanics" of a particular investment. Scam artists often move to the next target if an investor asks a lot of questions since the more they say, the more they increase their chance of getting caught. Before purchasing any investment, the Arizona Corporation Commission's Securities Division urges investors to ask the following questions:

- *Does the investment meet your personal investment goals?* Whether you are investing for long term growth, investment income or other reasons, an investment should match your own investment goals;
- *Are claims made for the investment realistic?* Some things really are too good to be true. Use common sense and get a professional, third party opinion when presented with investment opportunities that seem to offer unusually high returns in comparison to other investment options. Pie-in-the-sky promises often signal investment fraud;
- *Has the seller given you written information that fully explains the investment?* Make sure you get proper written information, such as a prospectus or offering circular, before you buy. The documentation should contain enough clear and accurate information to allow you or your adviser to evaluate and verify the particulars of the investment.
- *Are the seller and investment licensed and registered in your state?* Call the Corporation Commission's Securities Division to find out. If they are not, they may be operating illegally.

The public is encouraged to investigate before investing by contacting the Securities Division at (602) 542-4242, toll free at 1-877-811-3878, or visit its website at www.ccsd.cc.state.az.us.

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